DOCUMENT RESUME

ED 373 199 CE 067 033

TITLE	Global Markets. Unit 4. Level 1. Instructor Guide. PACE: Program for Acquiring Competence in Entrepreneurship. Third Edition. Research & Development Series No. 301-04.
INSTITUTION	Ohio State Univ., Columbus. Center on Education and Training for Employment.
PUB DATE	94
NOTE	28p.; For the complete set, i.e., 21 units, each done at three levels, see CE 067 029-092. Supported by the International Consortium for Entrepreneurship Education, the Coleman Foundation, and the Center for Entrepreneurial Leadership Inc.
AVAILABLE FROM	Center on Education and Training for Employment, 1900 Kenny Road, Columbus, OH 43210-1090 (order no. RD301-04 IG, instructor guide $4.50; RD301-04 M, student module, $3; student module sets, level 1--RD301M, level 2--RD302M, level 3--RD303M, $45 each; instructor guide sets, level 1--RD301G, level 2--RD302G, level 3--RD303G, $75 each; 3 levels and resource guide, RD300G, $175).
PUB TYPE	Guides - Classroom Use - Teaching Guides (For Teacher) (052) -- Guides - Classroom Use - Instructional Materials (For Learner) (051)
EDRS PRICE	MF01/PC02 Plus Postage.
DESCRIPTORS	Behavioral Objectives; *Business Education; *Competency Based Education; Cultural Differences; Economic Opportunities; *Entrepreneurship; *International Trade; Learning Activities; Monetary Systems; Postsecondary Education; Secondary Education; Small Businesses; Student Evaluation; Teaching Guides
IDENTIFIERS	*Global Markets; *Program for Acquiring Competence Entrepreneurship

ABSTRACT

This instructor guide for a unit on global markets in the PACE (Program for Acquiring Competence in Entrepreneurship) curriculum includes the full text of the student module and lesson plans, instructional suggestions, and other teacher resources. The competencies that are incorporated into this module are at Level 1 of learning--understanding the creation and operation of a business. Included in the instructor's guide are the following: unit objectives, guidelines for using PACE, lists of teaching suggestions for each unit objective/subobjective, model assessment responses, and overview of the three levels of the PACE program. The following materials are contained in the student guide: activities to be completed in preparation for the unit, unit objectives, student reading materials, individual and group learning activities, case study, discussion questions, assessment questions, and references. Among the topics discussed in the unit are the following: international trade, reasons businesses should export and import, key considerations in exporting, major trade regions of the world, the European Economic Community, the Pacific Rim, other significant trade regions, exchange rates, and the impact of cultural differences on global markets. (MN)

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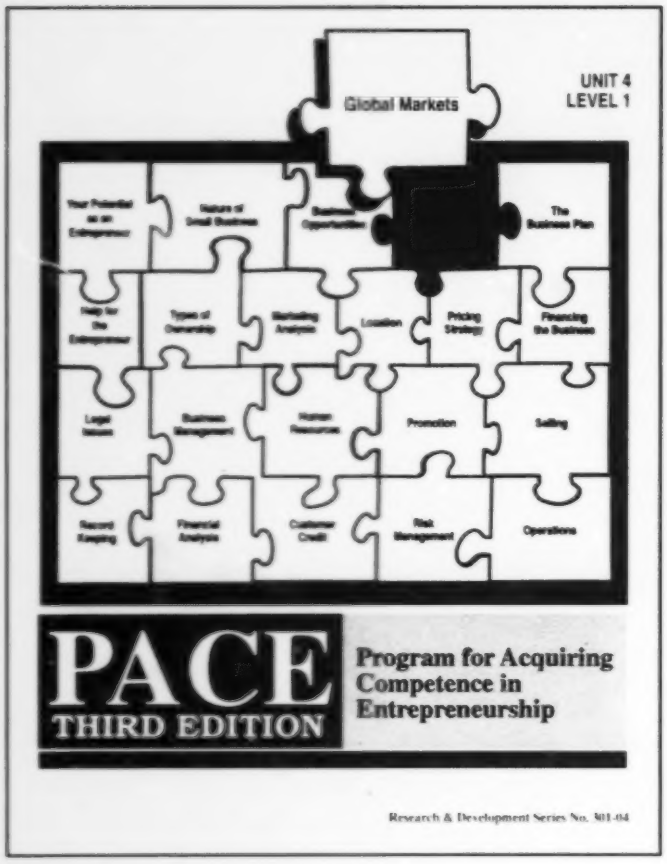

INSTRUCTOR GUIDE

Unit 4

Global Markets

Level 1

HOW TO USE PACE

- Use the objectives as a pretest. If a student is able to meet the objectives, ask him or her to read and respond to the assessment questions in the back of the module.
- Duplicate the glossary from the *Resource Guide* to use as a handout.
- Use the teaching outlines provided in the *Instructor Guide* for assistance in focusing your teaching delivery. The left side of each outline page lists objectives with the corresponding headings (margin questions) from the unit. Space is provided for you to add your own suggestions. Try to increase student involvement in as many ways as possible to foster an interactive learning process.
- When your students are ready to do the *Activities*, assist them in selecting those that you feel would be the most beneficial to their growth in entrepreneurship.
- Assess your students on the unit content when they indicate they are ready. You may choose written or verbal assessments according to the situation. Model responses are provided for each module of each unit. While these are suggested responses, others may be equally valid.

Objectives:

- Define international trade.
- Describe trade regions of the world.
- Discuss reasons for exporting and importing.
- Identify the impact of cultural differences have on business opportunities.

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Objectives	Teaching Suggestions
1. DEFINE INTERNATIONAL TRADE	
What is international trade?	The student is being introduced to the concept of *international trade* and *global markets* from a historical perspective. Have the class discuss how international trade affects their lives on a daily basis.
2. DISCUSS THE REASONS FOR EXPORTING AND IMPORTING	
Why should businesses export?	This section lists several attractions of dealing in global markets. Use the chalkboard or overhead to list offerings from the class about why they think businesses should export. Be sure to note to the class that you understand that their knowledge is limited at this early stage of instruction, but that you are just seeking *opinions*.
Why should businesses import?	Refer to the above suggestion.
What are the key considerations in exporting?	There are many other things, beyond those mentioned, to consider before a company decides to export. As an additional activity the class could do outside research to determine what some of these may be, then share them with the rest of the class.
3. DESCRIBE TRADE REGIONS OF THE WORLD	
What are the major trade regions of the world?	Ask students to discuss what they know about each of the trade regions discussed at this level. Ask them to share their prior knowledge about what products come from which regions. As they suggest products/regions, ask them for opinions as to why they think the particular countries produce given products. Some will be obvious to the students, e.g., coffee is grown in Brazil because of its climate, while others will require some thought and even research on the part of the students.
What is the European Economic Community (EEC)?	This section begins by simply stating the countries that make up the EEC. Write the names of these countries on the chalkboard or overhead and have the students suggest products from each that are commonly used in the United States. This will graphically illustrate the impact of international trade on their own lives.
What is the Pacific Rim?	Repeat to the above suggestion.

Objectives	Teaching Suggestions
How do exchange rates work?	The Wall Street Journal publishes exchange rates for many countries each day. This would be a good opportunity to resurrect the "show and tell" activity. Have students bring in any foreign currency they may have at home (with parents' or guardians' permission, of course). Pass the coins around the room for perusal. Ask for general impressions about the currency they have seen. Present some simple exchange rate problems and help the class do the conversions, then quiz them on what they've learned.
What are the other significant trade regions?	Suggest the students investigate the North American Free Trade Agreement (NAFTA) for the purpose of debating its pros and cons. Divide the class into two teams. Each student should come to class prepared with data that will support their team's position.
4. IDENTIFY THE IMPACT CULTURAL DIFFERENCES HAVE ON BUSINESS OPPORTUNITIES	
What is the impact of cultural differences on Global Markets?	This is an excellent time to introduce resources such as Axtell's *Do's and Taboos Around the World* (see source reference in Level 3) to spur discussion. Explain that although these cultural differences may seem unusual, and even funny at times, that knowledge of these differences are critical to success in global markets.

MODEL ASSESSMENT RESPONSES

1. Three reasons why entrepreneurs should import are: (1) the absence of some unique products in the U.S. available only through importing; (2) the absence of certain products (such as coffee) due to weather and climate conditions, and (3) the opportunity of buying some imported goods priced lower than domestic analogue products.

2. Before exploring foreign markets, entrepreneurs should become acquainted with (1) certain cultural customs and expectations that should be adhered to, (2) cultural customs that exist from which a foreigner may be excused, and (3) customs that a foreigner should not attempt to adopt.

3. Three examples of cross-cultural communication differences one could experience when doing business abroad are: (1) the way Japanese greet a friend versus a business partner, (2) the fact that Chinese people consider tips humiliating, and (3) Muslim religion which forbids the eating of pork.

4. The major trade regions in the world include the European Economic Community (EEC), Africa, the Middle East, the Pacific Rim, South and Central America, the U.S., Canada, Mexico and the Commonwealth of Independent States.

5. Exporting refers to selling of goods to other countries. Importing is the process of buying products and services from another country.

PACE
THIRD EDITION

Program for Acquiring Competence in Entrepreneurship

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For information on PACE or to order, contact the Publications Department at
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Support for **PACE, Third Edition** provided in whole or in part by:

International Consortium for Entrepreneurship Education and
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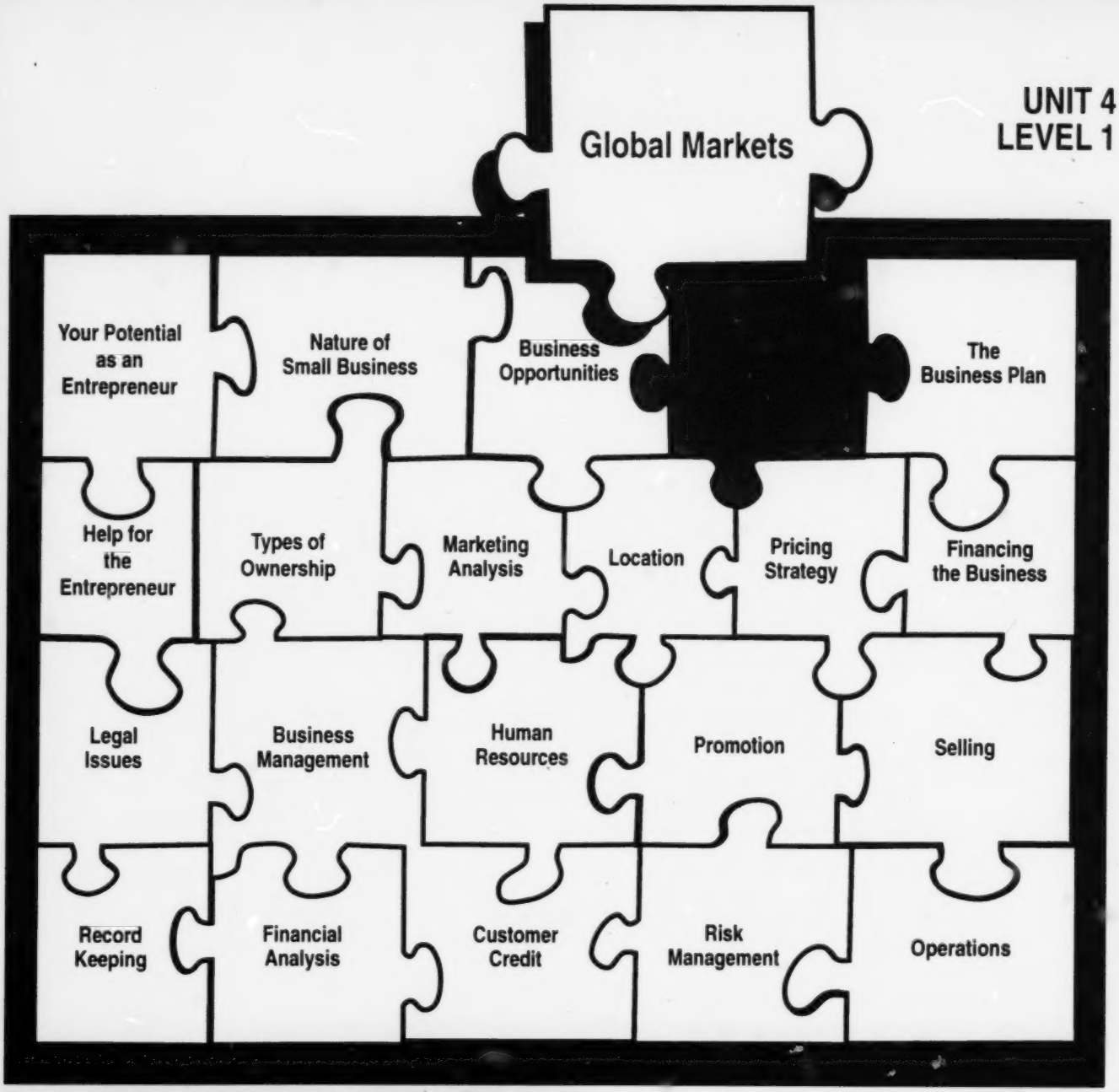
UNIT 4
LEVEL 1



PACE
THIRD EDITION

Program for Acquiring Competence in Entrepreneurship

CENTER ON EDUCATION AND TRAINING FOR EMPLOYMENT
COLLEGE OF EDUCATION
THE OHIO STATE UNIVERSITY

Research & Development Series No. 301-04

GLOBAL MARKETS

BEFORE YOU BEGIN . . .

1. Consult the *Resource Guide* for instructions if this is your first PACE unit.

2. Read What are the Objectives for this Unit on the following page. If you think you can meet these objectives now, consult your instructor.

3. Look for these business terms as you read this unit. If you need help with the meanings, ask your instructor for a copy of the PACE Glossary contained in the *Resource Guide*.

Competitive advantage
Copyright
Culture
Economies of scale
European community
Exchange rate
Export
Global market
Gross Domestic Product (GDP)
Import
International trade
Pacific rim
Trademark
Trade regions

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GLOBAL MARKETS

WHAT ARE THE OBJECTIVES FOR THIS UNIT?

Upon completion of this unit you will be able to—

- define international trade,
- describe trade regions of the world,
- discuss reasons for exporting and importing, and
- identify the impact cultural differences have on business opportunities.

WHAT IS THIS UNIT ABOUT?

Technological advances cause the world to appear smaller. The speedy transmission of information, whether by voice or picture, offer businesses an advantage to approaching the world as a marketplace.

The focus of this unit is the role of the entrepreneur in global markets. The definition of international trade is discussed and the trade regions of the world are described. The reasons for exporting and importing are examined and the impact of cultural differences on business opportunities are evaluated.

WHAT IS INTERNATIONAL TRADE?

Every day we buy products from all over the world: shoes from Brazil, toys from China, and shirts from Mexico. Customers for these products are found in every country. Therefore, it is not surprising that American businesses can improve their sales by finding customers in all parts of the word.

More than ever before, world trade is essential to the health of the American economy and to the growth of most U.S. companies. This is especially true for small businesses that experience an increase in foreign competition at home. Entering the global marketplace offers exciting opportunities to improve company sales and profits. Chances

are that if your company has done well in selling its products/services in the U.S. market, the same may also be true in international markets.

traveled the roads and bartered their goods in foreign countries.

Clearly, international trade looks different today, but the principals remain the same.

The term *global markets* refers to those markets that are available for goods and services outside of the country in which they were produced. International trade began as far back as the Bronze Age, where the British transported tin to the Mediterranean Empires to make weapons. A trade route was forged across Europe and Asia to transport not only metal, but also other goods and services such as manufacturing expertise. Further trade routes were created from China to Europe, and over many hundreds of years merchants

People from different countries can benefit from each others' skills, if they are willing to exchange ideas and products to the mutual benefit of all involved.

When international marketing first started, it was considered mostly for the larger corporate businesses. But now the small and medium-sized businesses are finding that they too can successfully enter the global market with their products or services.

WHY SHOULD BUSINESSES EXPORT?

Exporting is sending domestically produced goods to other countries. Exporting means a whole new market for many businesses. A primary reason that many companies export is to derive advantage from economies of scale. *Economies of scale* are merely the cost savings of buying more. By exporting, entrepreneurs increase sales of their products. This, in turn, means they have to buy more raw materials that allows them to take advantage of lower costs that result from buying higher quantities. This logic applies not only to manufacturing, but also to other areas of your business, such as shipping, distribution, and marketing.

But there are other reasons for exporting.

- **Licensing agreements**. A second party will pay you for the opportunity to take your product overseas or produce and sell it overseas. Your payment on these sales are in the form of *royalty checks*.

- **Greater market share**. There may be less competition for your product overseas. This allows you the potential to gain a greater share of a foreign market than may be possible in the United States.

- **Product modification and innovation**. Sometimes when you take your product to a new marketplace, you may need to make improvements in design, function, or production.

- **Product renewal**. Whereas the demand for your product may be declining in domestic markets, new markets might offer fresh demand for the product.

WHY SHOULD BUSINESSES IMPORT?

Importing is the process of bringing goods or commodities from another country for sale, use, or production in this country. Businesses find many reasons for importing:

- In many countries the labor and raw materials costs are lower than in the United States, which means that goods can be produced more cheaply overseas. When the goods are imported, they are sold at prices that are lower than similar products that are made in the United States.

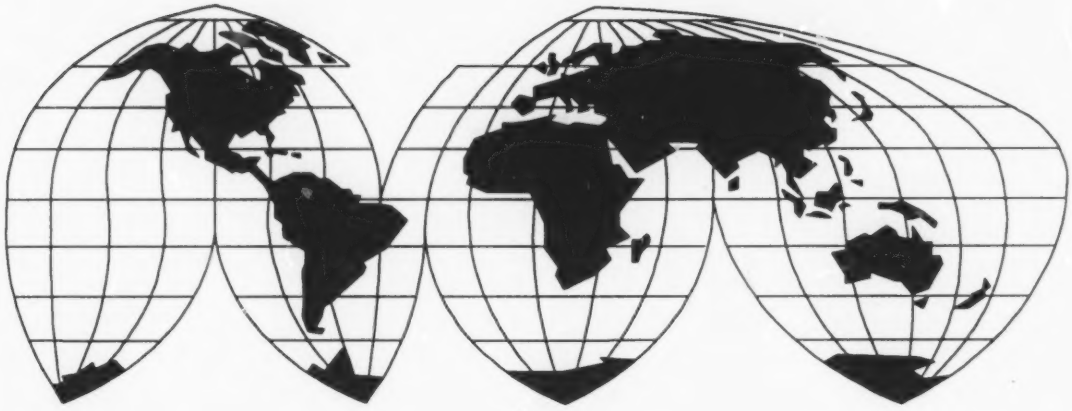
- In some cases foreign companies may produce higher quality or more technologically advanced products than does the United States. Even if they are more expensive, many people are prepared to pay more for imported goods which they believe are of better quality.

- Some items, such as coffee or tea, cannot be produced in the United States due to the climate.

- Some items might have been invented in another country and are not available for production in the United States due to *copyright* or *trademark laws*.

- To some people it is a status symbol to own certain foreign products. Clothing and cars are examples of products that may have an advantage over American made products simply because they are made in France, Germany, or Japan.

- Make the commitment
- Analyze your firm's capabilities
- Determine the export potential of your product/service



WHAT ARE THE KEY CONSIDERATIONS IN EXPORTING?

Selling abroad requires time, personnel, planning, market research, attention to detail, and hard work. Some basic product changes such as voltage, packaging, or metric conversion may be required. Yet, exporting is not difficult if the fundamental elements of the export process are understood and followed:

- Locate foreign markets
- Develop market entry strategies
- Learn export procedures
- Process an export order
- Monitor exchange rates

To be a successful exporter depends upon the determination and commitment of the entire company. The company has to make things happen! Any changes that must be made must be established and understood by the entire management team and work force.

Such changes may involve—

- the organizational structure,
- export knowledge,
- export financing,
- export requirements, and
- the attitudes of the company toward exporting.

The U.S. government encourages small businesses to export. Sales to overseas customers help not only the firms making the sales, but also the U.S. economy. According to the U.S. Small Business Administration, each $1 billion in U.S. exports provides nearly 25,800 jobs.

There are roughly 300,000 manufacturing firms in the United States, but only a small percentage of them export. It is estimated that many thousands of other firms offer goods and services that could compete successfully in foreign markets if the effort were made.

WHAT ARE THE MAJOR TRADE REGIONS OF THE WORLD?

A *trade region* is a group of countries in the same area of the world that actively trade with one another. The size or power of the trade region depends on the economic influence of the countries both individually, and as a group. Trading blocs are formed because countries determine that doing business with each other was easier than doing business with everyone else. Regionalism is in effect a form of preference that is shown to one country over another.

The major trade regions are: the European Community; Africa; the Middle East; the Pacific Rim; South and Central America; the United States, Canada, and Mexico; and the Commonwealth of Independent States.

One way to identify the largest trade regions of the world is to look at the share each region has of the world's *gross domestic product (GDP)*. The GDP is defined as the market value of all the goods and services produced by a given country during a given year. The United States represents 25 percent of the total world's GDP, which means that $0.25 of each dollar of the global output was contributed by the United States in terms of the goods produced and the services delivered by U.S. companies. This is the largest share of any one country. Figure 1 shows the relative GDP figures for each major trading bloc.

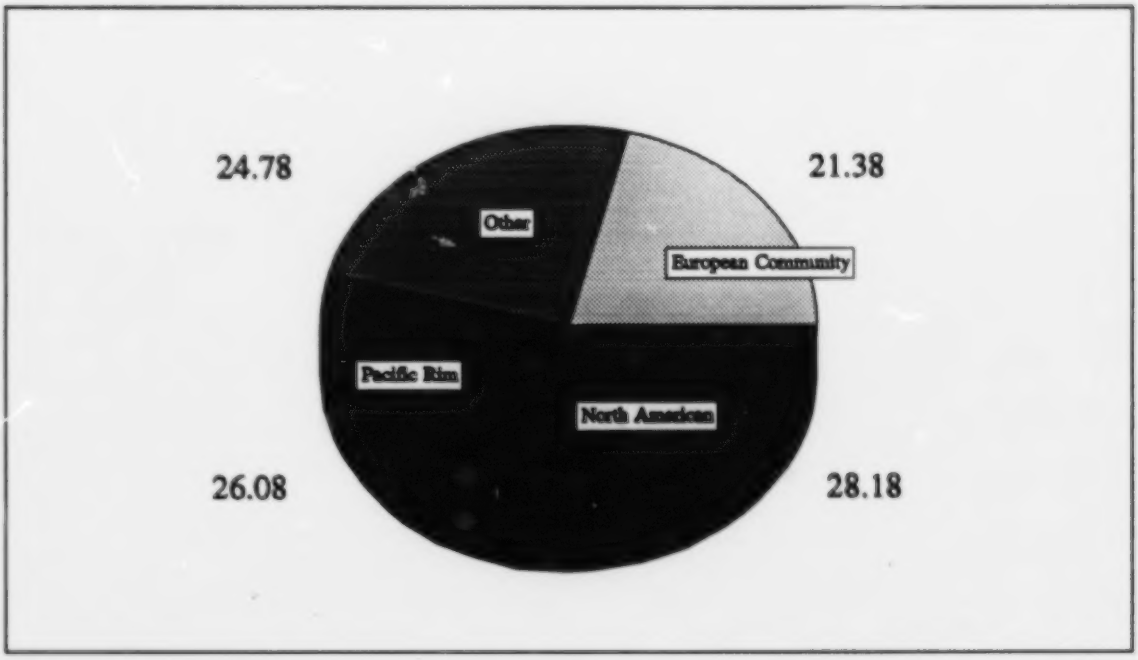


Figure 1. Proportion of U.S. Exports by Trade Bloc

Source: *Statistical Abstract of the United States 1992.*

WHAT IS THE EUROPEAN ECONOMIC COMMUNITY?

Figure 1 shows the importance of regional trading blocs to the United States in terms of proportion of share of U.S. exports. As shown there is a fairly even distribution of the share of exports among the blocs.

The European Economic Community (EEC) has established a common trading region composed of 12 countries that represented over 20 percent of the World's GDP in 1989. The 12 countries are: Belgium, Germany, France, Italy, Luxembourg, the Netherlands, Denmark, Ireland, the United Kingdom, Greece, Spain and Portugal (See Figure 2). In round numbers, EEC translates to a powerful market of more than 323 million consumers that provide outstanding opportunities for small and large businesses alike. By working together, the governments of these nations have reduced trade barriers between countries which allows much simpler trade across borders (much like Americans who sell their goods in Alaska, California, and Ohio).

Other countries in Eastern and Central Europe are working to follow the EEC countries' lead and to become part of the regional trading bloc. They all see benefits to becoming one large region with a common

currency, low barriers to trade, and the free flow of goods and services among European countries.

The authors of the EEC treaties recognized that the economic foundation for unity would be a customs agreement permitting the free movement of goods, services, capital, and people within Western Europe. An example of the new unity can be seen in EEC passports, which allow easy passage for EEC citizens to all EEC countries.

However, the creation of a European common market has many people concerned about protectionism and the reduction of export opportunities to Europe. The simplification of trade within Europe will mean that many Europeans will now be looking inward for the products that may have originally been supplied by the United States. The reaction of the U.S. business community has been a rush to establish a partnership with a European company that can act as a distributor when the final treaties are signed.

But not every company that plans to export to Europe is in a position to establish such a relationship. They should not be too concerned, because international trade is such a vital element of European prosperity that it likely will not be jeopardized by prohibitive trade laws.

The EEC is the United State's largest trading partner. The United States and EEC are each other's most significant source of direct investment. And this market for exports appears to be strong. U.S. exporters had 1990 sales of $98.1 million to the EEC and has grown significantly in recent years. However, this trend may slow as issues that were not foreseen by the original unification committee begin to arise. These include the redrawing of the Eastern European map and the costs involved in "westernizing" those economies and the general economic slowdown that is anticipated. Although it is not possible to identify which industries will be most affected, exporters should pay very close attention to developments in Europe.

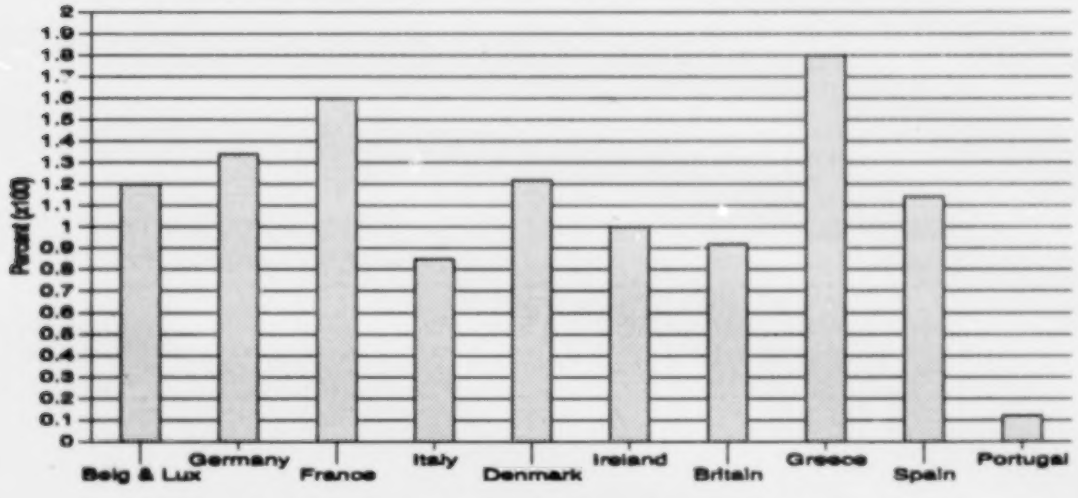


Figure 2. U.S. Export Growth in the European Community

Source: *Statistical Abstract of the United States 1992*. Table Number 1335.

WHAT IS THE PACIFIC RIM?

The **Pacific Rim** is a trading region whose members lie on the Asian rim of the Pacific Ocean. The trading bloc was originally created among the countries of southeast Asia, Australia, and New Zealand. Initiated by the Japanese after World War II, Asians began exporting mass produced, inexpensive goods to the United States and other industrialized nations. In turn, the United States traded manufacturing, technological, and management expertise. Over the next 40 years, many of the countries on both sides of the Pacific Ocean began forming trading relations, using the crowded shipping lanes to transport millions of dollars of goods each year.

The original Pacific super economy evolved from the ruins of a war torn **Japan**. With assistance from the West, the Japanese began to rebuild their economy immediately after World War II. With the self-discipline and dedication of the work force, and management and manufacturing skills donated from the West (along with a lot of start-up capital), the Japanese began to manufacture labor-intensive products for export and domestic use. Over the years the Japanese have turned from imitator to innovator and are now among world leaders in economic output, productivity, and quality.

Close behind Japan in rate of economic growth and output are the "Four Tigers" of Taiwan, Singapore, South Korea, and Hong Kong. These countries have a combined GNP of $346 billion. Although this figure does not match that of the Japanese, what is impressive is their growth. These countries are among the fastest-growing economies in the world. Despite the world recession of the early 1990s, these countries all had growth rates of higher than 5 percent per year. Of the nations in the Pacific Rim trading block, these countries have the most to offer the U.S. exporters. A brief description of the "Four Tigers" follows:

Located in the East China Sea, **Taiwan** is on the verge of economic explosion. For many years Taiwan had a closed door policy regarding imports in order to protect their home grown industries. This protection permitted the Taiwanese to maximize their advantage of low labor costs and to build a strong business foundation. The Taiwanese now offer an extremely attractive and stable economy to those interested in doing business there. The most promising industries are those related to high technology, but Taiwan also offers a cheaper alternative to enter Chinese markets than does Hong Kong.

Probably the most unique business center in the world, **Hong Kong** offers a wide range of services that are very easily accessible to foreign companies who want to do business there. This self-governed colony of the United Kingdom has been left virtually to trade as it sees fit, unhindered by regulation and heavy taxation. Hong Kong is a country where the free hand of the economy is the compelling ruler. Economic expansion into China is reducing the fear that things will change for the worse when China assumes rule of Hong Kong in 1997.

Singapore is another unique emerging economy. About the size of San Francisco, Singapore offers a variety of opportunities for the international entrepreneur. Primarily, Singapore is promoting itself as a technology leader and is attempting to secure a place as the "second city" of Asian finance after Tokyo. Most of the population speaks English, the city is clean and efficient, and the subways have cellular telephones! Just as Hong Kong and Taiwan are the gateways to China, Singapore is the gateway to the major south Asian economies of Thailand, the Philippines, Indonesia, and Malaysia. Singapore is eager to expand into new technologies and is making generous offers to companies that are willing to set up shop.

Only a few hundred miles from Japan, **South Korea** is a nation whose industrialization went largely unnoticed for years. Now, Korean white-collar workers have a higher standard of living than their Japanese counterparts. Combine this work ethic with a 50 percent college-educated adult population and you are dealing with a future economic powerhouse. The Koreans learned from other countries' mistakes when they entered the global marketplace, and are attempting to establish fair trade practices from the start. That means opportunities for the U.S. exporter.

Possibly the most promising and dynamic economic zone in the world is the region of Southern **China**. In the late 70s the Chinese began to open up selected Southern provinces to international markets. Chinese businessmen from Hong Kong and Taiwan capitalized on the opportunity and established manufacturing operations in China. Starting in the early 1980's, this region has experienced phenomenal growth in terms of productivity. The combination of ingenuity and capital from Taiwan and Hong Kong, along with the low-cost labor in China has proven to be a successful formula. This region of China is expected to surpass Japan as the regional super economy in the years to come. The unstable element of the equation is the Chinese Communist government and their unwillingness to embrace all that comes with the Westernized economy, such as free elections and democracy.

Figure 3 illustrates the increasing importance of certain Pacific Rim nations in terms of U.S. export growth. As noted, China's import of U.S. goods has not increased significantly whereas exports have increased enormously for Thailand.

The Pacific Rim region offers many opportunities in addition to the primary growth economies mentioned above. **The Association of South East Asian Nations (ASEAN)** of Thailand, Indonesia, Malaysia, and the Philippines all offer opportunities for profitable trade to the small business person. Located between the Pacific and Indian oceans, this region offers investors a dynamic and growing marketplace. The region is wealthy in natural and human resources, which means that there are people with money who would be interested in purchasing products exported to them.

Australia and New Zealand are also major traders in this region. Of the countries in the Asia Pacific basin, only China and Japan have a higher GDP than Australia. During

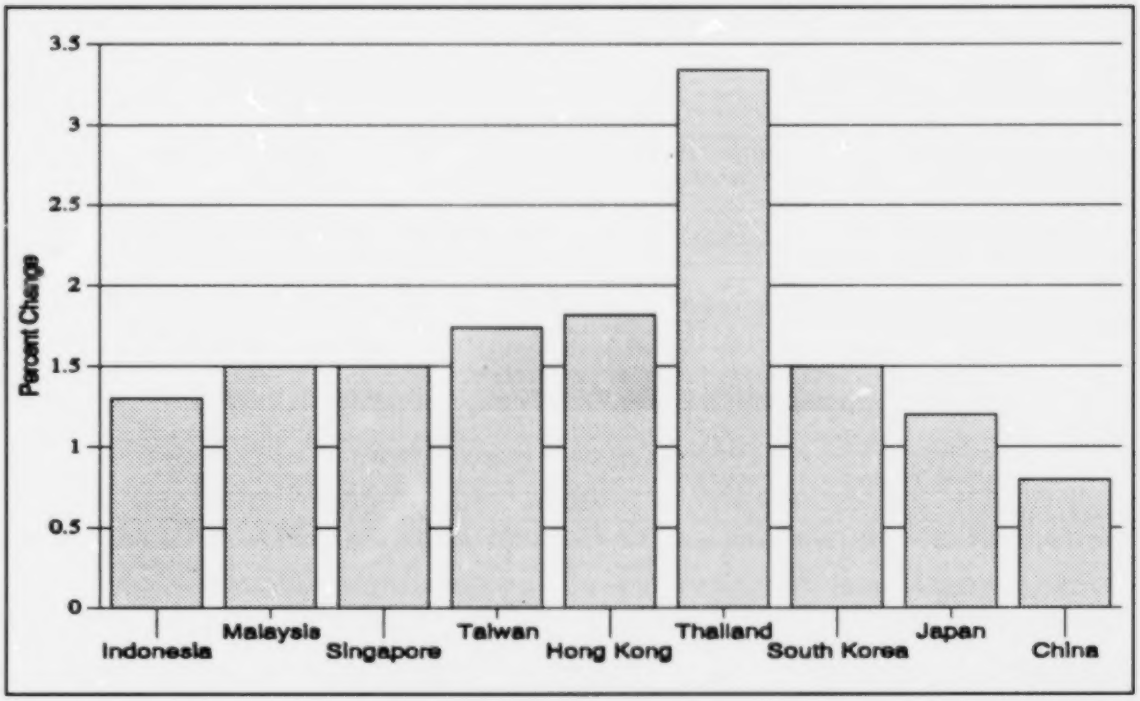


Figure 3. Percentage of Increase for U.S. Export to the Pacific Rim Region 1985-1991

Source: *Statistical Abstract of the United States 1990.* Table Number 1335.

the 50s and 60s these two countries, with their abundance of natural resources, enjoyed among the highest standards of living in the world. Perhaps too reliant on their wool and steel, neither country concentrated on manufacturing, and as a result they both suffered when international demand for their goods fell. The 70s and 80s were lean times that forced a cultural shift toward manufacturing more goods and providing services. Nevertheless, both Australia and New Zealand are still vulnerable to the value of coal, oil, wheat, and wool in international markets. And, as the crippling recession of the early 90s indicates, both of these countries have a long way to go before they reach their economic potential.

WHAT ARE THE OTHER SIGNIFICANT TRADE REGIONS?

In spite of an international agreement to promote international trade and break down trade barriers, it is becoming clear that regional trading blocs are forming, and that there is an advantage to being a member of one of these blocs.

Traditionally, the United States has been a leader in terms of world trade. However, it is becoming clear that the United States is no longer the global power that it once was. There are some countries, as well as trading

blocs, that are more competitive in global markets. Having recognized this fact, the United States is attempting to strengthen its ties with its regional trading partners. However, this is not a simple proposition for international trade officials in Washington. In spite of the fact that the United States does vast quantities of trade with both Canada and Mexico, forging an official, mutually beneficial relationship has proven difficult. However, many companies have taken the initiative and have begun to forge their own relationships. Figure 4 illustrates the percentage of growth in exports to our closest neighbors to the north and south.

of Independent States into a major economic force in the years to come. A combination of advanced scientific knowledge, large population, and an abundance of natural resources could combine fruitfully to bring the country out of the economic dark ages. The speed and efficiency with which the government can build a solid base for transportation and communication will play a key role in economic development. For guidance, the Commonwealth of Independent States could look to a number of countries that have undergone similar development in recent years. In particular, the Soviet situation resembles China, and although their cultures

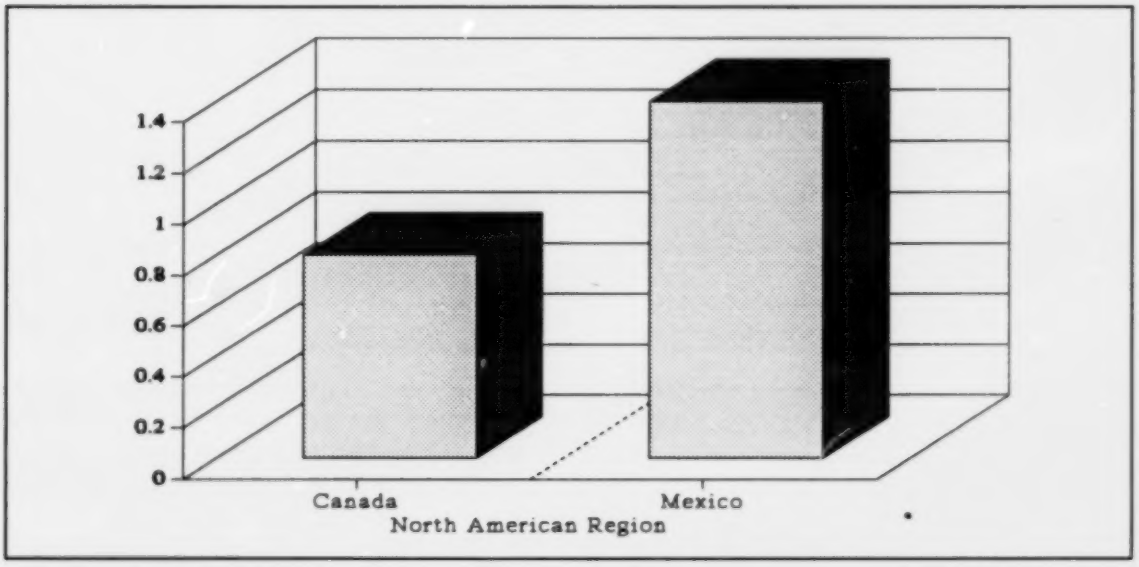


Figure 4. Percentage Increase of U.S. Exports to Canada and Mexico, 1985-1991

Source: *Statistical Abstract of the United States 1991*. Table Number 1335.

One of the most interesting developments in world trade in recent years is the acceptance of capitalism in the former Soviet Union. Although still in its infancy, and experiencing definite "teething problems," capitalism has the potential to turn the Commonwealth

may be far from similar, their economic development shows similarity.

It is important to recognize that many of today's less-developed countries will prosper over the next 20 years. Countries in Asia

that were considered Third World during the 70s now have the fastest-growing economies and greatest potential for prosperity of any region in the world. This reasoning presents both opportunities and challenges for the American entrepreneur who is willing to venture into international trade.

buy Japanese cars, then the demand for the Japanese currency, the yen, will increase, and it will take more dollars to buy the same number of yen than it took before.

For example, consider a deal with Australia. You would like to import an Australian

HOW DO EXCHANGE RATES WORK?

One of the biggest risks involved in exporting and importing is the effect of changing exchange rates on the value of goods. The *exchange rate* is simply the measurement of the value of the U.S. dollar against the currency of the country in which business is transacted. The value of the currency is determined by how many people want to buy it. For example, if lots of people want to

bottle of wine that you think will be popular in your city. Currently, the Australian dollar is worth 76 cents in the United States. Suppose that the bottle of wine costs $10 Australian. That means that you will need to come up with $10 Australian by buying Australian dollars from a bank. How much will you have to pay for $10 Australian?

At $1 AUS = $0.76 U.S. you will have to pay $7.60 U.S. for $10 Australian. That means that each bottle of wine will cost you $7.60 U.S.

Now suppose that a lot of people from the United States are interested in buying this wine. That means that the demand for Australian dollars will increase, and they will become more expensive. Thus it will take more U.S. dollars to buy the same number of Australian dollars. Let's make the exchange rate $1 AUS = $0.85 U.S. How much will it cost to buy the $10 of Australian currency needed for the wine?

At $1 AUS = $0.85 U.S. you will now have to pay $8.50 U.S. for $10 Australian. That means that each bottle of wine will now cost $8.50 instead of $7.50. This presents a major problem for importers because as you saw, the wine went up $1 and you had no control over it.

It is possible to deal with exchange rate fluctuations by coming to arrangements with banks and exporters about the agreed amount you will have to pay, but it is still important to understand where you may incur this risk.

WHAT IS THE IMPACT OF CULTURAL DIFFERENCES ON GLOBAL MARKETS?

Culture is the word used to generally describe the differences in the way people from different countries go about doing things. Since each country has its own unique set of customs and cultural norms, it is necessary that the exporting business be aware of cultural differences and be prepared to be flexible when dealing with people from other countries. It may not be realistic to understand all of the cultural differences of a particular race, but you should learn the major ones. The impression you make with foreign business partners could well determine the success of your venture. Also, don't forget that you can really enjoy cultural differences and that it is these cultural differences that make international business so interesting and challenging.

Flexibility and cultural adaptation should be the guiding principles when conducting business abroad. Business manners and methods, religious customs, dietary practices, humor, and acceptable dress, all vary widely from country to country. It is important to acquire a basic knowledge of the business culture, management attitudes, business methods, and consumer habits, of the country being visited. Your business must be sensitive to the customs and business procedures for each country in which you intend to trade.

Generally, these customs and procedures fall into one of three categories.

1. First, there are **certain cultural customs and expectations that should be adhered to** in order to conduct business. For example, in the middle and western region of Asia, engaging in small talk before engaging in business is standard practice.

2. In addition, there are **cultural customs that exist from which a foreigner may be excused**. For example, not eating certain foods is often acceptable if the refusal is gracious.

3. Third, there may be cultural exclusion that are **customs that a foreigner should not attempt to adopt**. For example, most religious or political activities should be avoided.

Cultural differences affect businesses in many ways. Primarily, they affect business in terms of communication. Therefore, culture affects business that involves dealing with other people, which is almost all of the business you will transact. The reason that these areas are most affected is because these are the areas where you come into contact with foreign culture one on one. It is hard to imagine how many different ways there are of greeting business people all over the world, so be prepared for that, and a lot more fascinating cultural differences when you travel overseas. Here are some examples of cultural differences:

- Japanese have different greetings for different situations. They wave the hand to say hello to a friend and give a quick bow of the head. The business greeting is a direct bow. This is considered an extremely polite bow. Also, you should not wear shoes in a Japanese house.

- The British are formal in their business relationships and believe that there is a time and a place for everything. Business is not conducted after hours, and the business relationship is formal until acknowledged as otherwise.

- In Singapore touching another's head is impolite. Also legs are crossed one knee over the other. The foot or sole is never pointed at anyone.

  Do not openly admire a Latin American's possessions; they may give them to you. It is considered to be normal to be as much as two hours late for an appointment in Mexico City due to the traffic. Displays of affection and generosity are the norm.

- In China the people are very formal. They respect titles and the elderly. The surname precedes the personal name and married women do not use their husband's name. Generally the Chinese consider tipping an insult.

For practical purposes, culture will affect your business in three ways. These are in terms of marketing, negotiating, and "culture shock."

Marketing is the function within your organization that determines the types of products that your customer wants to buy and ensures that your customer is given an opportunity to buy them. This function involves a fundamental understanding of the needs of the customer. Because people from different cultures are different in the way they behave and think, marketing to these people requires an understanding of their culture.

Negotiating is another area in which American business people may have difficulty. The reason for this is that most transactions are not done on home territory. American firms can enter international negotiations at a severe disadvantage unless they prepare adequately ahead of time. Preparation involves having a complete understanding of your firm's capabilities, as well as those of your competitors, and an understanding of the negotiation culture of your partner.

Culture shock is the response that a person has when they move into a new culture. It is an emotional response, and it will affect your impressions of your new environment and your ability to adapt and be comfortable. For most people, culture shock will be very minor, and probably very interesting. In rare

cases, it can lead to emotional instability and depression. To avoid the downside, you should familiarize yourself with the culture that exists in the countries you plan to visit.

Even though there are definite cultural differences, the world seems to be moving toward a global lifestyle with global cultures. As technology draws countries closer together, a global likeness is developing. With air travel moving more than 3 million people a day, we gain more understanding of each other and our unique cultural traits. Education as well as the arts and entertainment have helped to draw countries together. The *Wall Street Journal*, *Financial Times*, *USA Today*, and other publications are distributed daily on several continents.

Television has also made great strides in making global connections by helping nations to be more aware of each others' cultural differences.

Since 1960 world trade has grown at more than twice the rate of the U.S. economy. Now is the time for both manufacturing and service businesses to reach out and be included in the international marketing arena.

But as with all products and services it takes the right mix of the right product at the right time at the right price to bring the products to the end user, whether it be a domestic or international customer.

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ACTIVITIES

The following activities are designed to help you apply what you have learned in this unit.

INDIVIDUAL ACTIVITIES

A.

On a separate sheet of paper make a list of items in your home that have been imported from other countries. Also list the country where the item was made. Share your list with other student's lists.

B.

The understanding of global markets involves understanding world geography. Identify the name of as many countries as you can on the global map on the next page. Concentrate on the major trade regions of the world.

GROUP ACTIVITIES

A.

Cultural differences liven up the big picture of global marketing. For each of the following situations, form a group and discuss how you would deal with the cultural situation as an American business person.

1. You are visiting an important new contact in Bangkok and he takes you out for dinner on your first night in town. The meal is pretty much like any Chinese meal that you have had at home, until the final and most important dish is brought to the table. Your new contact ordered this dish because it is a delicacy in Thailand, and it is very expensive. He is trying to impress you. You don't recognize the dish at first, so you politely inquire as to the content. With great pride and anticipation your host informs you that the dish is a dog. You know that he will be insulted if you do not eat, and the deal would most likely be lost. What should you do?

2. You have a product that you intend to sell in Latin America. You are meeting your Mexican distributor for the first time and she takes you to her house to meet her family. On the way in the front door you notice that your host has two ornate swords that appear to date to the time of the Spanish revolution. You comment on the beauty of the swords and ask to see one. Acknowledging your comment your host informs you that the swords have been in her family for centuries and were worn by her ancestors in battle. Before you know it, your host has pulled down the sword and is insisting that you keep it as a memento of your visit. Should you accept the priceless gift or politely decline it, knowing that you could not possibly repay such generosity?

3. You have just arrived in Australia to meet with a supplier who provides components for a product you will be selling in the United States. You have just spent 26 hours on a plane travelling to

the other side of the world and you are worn out when you arrive in Sydney. You really are not looking forward to the day of intense negotiation that you presume awaits you. Rather than take you straight to your hotel, your host takes you for a tour around the city and describes all of the sights with pride. After lunch you become anxious because you would prefer to start the negotiations. However rather than suggesting that the negotiations begin, your host suggests a round of golf followed by a dinner at the country club. How should you respond?

B.

Work in teams of four to six. Choose one of the following foreign countries that you would like to represent: Japan; Germany; Great Britain; Canada; Mexico. One member of the group should elect to represent the United States. After choosing a country, find out what the currency of that country is worth in U.S. dollars (hint: remember when $1 Australian = $0.85 U.S).

The student representing the United States should choose an item that he or she would like to export to the foreign countries represented by the rest of the group. Find out how much the item costs in the United States in U.S. dollars. As a team, answer the following problems:

1. Work out how much of each of the foreign currencies would be needed to purchase the American product.
2. The U.S. dollar strengthens against the other currencies by 5 cents. Calculate how much of each of the other currencies would now be needed to purchase the item.
3. Who is better off as a result of the strengthening of the U.S. dollar?

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CASE STUDY

The Tymor Clothing Retailer is a global company. Started by an Ohio State University graduate about 20 years ago, Tymor's Threads has built a clientele of demanding customers by being the first retailer with the latest fashions. Today, Tymor's has retail outlets in many major malls across the country, occupying premium mall space and commanding premium prices for its fashionable merchandise. The Tymor's customer will pay the extra for the luxury of being 6 months ahead of the fashion trend.

Tymor's stays ahead of its competition by defining trends in fashion right at the source. Their fashion buyers are located in France, London, Rome, and New York. They are watching all the time to make sure that they pick up on the latest trends in fashion. Once a style is spotted it is faxed back to the head office, where the manufacturing team takes over.

The first thing the manufacturers have to do is determine where the material from which the clothes will be made will come. Often the team will send buyers to South America to look for the finest fabrics. Once the material has been purchased it will be shipped to Asia, where the actual construction will take place. The manufacturing will be subcontracted out to a number of different factories in Thailand, Singapore, and Hong Kong and will be coordinated by the Asian office in Hong Kong.

Once the clothing has been manufactured, it is loaded onto a huge transportation aircraft and flown back to Columbus, Ohio where it is distributed to different parts of the country overnight. The whole process of manufacturing the clothes from the time they are designed, to the time they arrive in the stores is less than three weeks.

DISCUSSION QUESTIONS

1. Where are Tymor's clothes made?
2. Which major trading blocs does Tymor do business?
3. Why do you think Tymor manufactures clothing in Asia?
4. What are Tymor's competitive advantages?
5. Why is being a global company important to maintaining that competitive advantage?
6. Why is it important for Tymor executives to be familiar with other cultures?

ASSESSMENT

Read the following questions to check your knowledge of the topics presented in this unit. When you feel prepared, ask your instructor to assess your competency on them.

1. Name three reasons why a business should want to export.

2. Name the three categories of customs and procedures that one should become acquainted with before looking for markets abroad.

3. List three examples of cross cultural communications that one might experience in selling in global markets.

4. Name the major trade regions of the world.

5. Define the terms *exporting* and *importing*.

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PACE

Unit 1. Your Potential as An Entrepreneur
Unit 2. The Nature of the Small Business
Unit 3. Business Opportunities
⇨ Unit 4. Global Markets
Unit 5. The Business Plan
Unit 6. Help for the Entrepreneur
Unit 7. Types of Ownership
Unit 8. Marketing Analysis
Unit 9. Location
Unit 10. Pricing Strategy
Unit 11. Financing the Business
Unit 12. Legal Issues
Unit 13. Business Management
Unit 14. Human Resources
Unit 15. Promotion
Unit 16. Selling
Unit 17. Record Keeping
Unit 18. Financial Analysis
Unit 19. Customer Credit
Unit 20. Risk Management
Unit 21. Operations
Resource Guide
Instructor's Guide

Units on the above entrepreneurship topics are available at the following levels:

* Level 1 helps you understand the creation and operation of a business
* Level 2 prepares you to plan for a business in your future
* Level 3 guides you in starting and managing your own business